



# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

## **COMPREHENSIVE RISK ASSESSMENTS OF MOD AND MOI FINANCIAL MANAGEMENT CAPACITY COULD IMPROVE OVERSIGHT OF OVER \$4 BILLION IN DIRECT ASSISTANCE FUNDING**

This product was completed under SIGAR's Office of Special Projects, the Special Inspector General's response team created to examine emerging issues in prompt, actionable reports to federal agencies and the Congress. The work was conducted pursuant to the Special Inspector General's authorities and responsibilities under the National Defense Authorization Act for FY 2008 (Pub. L. No. 110-181).

## **NOVEMBER 2013**

SIGAR-14-12-SPECIAL PROJECTS

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE <b>NOV 2013</b>		2. REPORT TYPE		3. DATES COVERED <b>00-00-2013 to 00-00-2013</b>	
4. TITLE AND SUBTITLE <b>Comprehensive Risk Assessments of MOD and MOI Financial Management Capacity Could Improve Oversight of Over \$4 Billion in Direct Assistance Funding</b>				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) <b>Special Inspector General for Afghanistan Reconstruction, 2530 Crystal Drive, Arlington, VA, 22202</b>				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT <b>Approved for public release; distribution unlimited</b>					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT <b>Same as Report (SAR)</b>	18. NUMBER OF PAGES <b>23</b>	19a. NAME OF RESPONSIBLE PERSON
a. REPORT <b>unclassified</b>	b. ABSTRACT <b>unclassified</b>	c. THIS PAGE <b>unclassified</b>			



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

December 3, 2013

The Honorable Chuck T. Hagel  
Secretary of Defense

General Lloyd J. Austin III  
Commander, U.S. Central Command

General Joseph F. Dunford Jr.  
Commander, U.S. Forces-Afghanistan and  
Commander, International Security Assistance Force

Major General Kevin R. Wendel  
Commanding General, Combined Security Transition Command-Afghanistan

This report discusses the results of SIGAR's review of safeguards created by the Department of Defense (DOD) to protect funds provided directly to Afghanistan's Ministries of Defense (MOD) and Interior (MOI). We suggest the Secretary of Defense consider conducting a comprehensive assessment to determine the financial management capabilities and risks within the MOD and MOI and the ministries' relationship with Afghanistan's Ministry of Finance (MOF). We also suggest the Commanding General, Combined Security Transition Command-Afghanistan (CSTC-A) consider, (1) ensuring that its advisors and mentors are included in the Capability Milestone (CM) rating process and any MOD and MOI financial management risk assessments, and (2) reassessing CSTC-A staffing levels to ensure the CJ8 Directorate Financial Management Oversight Office has the capacity to properly oversee direct assistance funding.

In November 2013, I discussed U.S. plans for direct assistance to the MOD and MOI with Major General Wendel, Commanding General CSTC-A, and Major General Williamson, Deputy Commanding General, CSTC-A. I appreciate their efforts to improve accountability of direct assistance to the ministries. I also have the utmost confidence that they are aware of the risks that the lack of transparency and accountability to U.S. and international direct assistance funding poses to future MOD and MOI assistance and, with it, the risk posed to the overall mission in Afghanistan. I appreciate the efforts that CSTC-A is making to mitigate this risk and protect U.S. taxpayer dollars. I hope that this report will support these efforts and improve MOD and MOI's capacity to manage and account for U.S. direct assistance funding.

We received comments on a draft of this report from CSTC-A, U.S. Central Command (CENTCOM), and the Office of the Secretary of Defense (OSD). Their comments are incorporated in the report, as appropriate, and reproduced in Appendices II and III.

This product was completed under the Special Inspector General for Afghanistan Reconstruction's Office of Special Projects, the SIGAR response team created to examine emerging issues in prompt, actionable reports to federal agencies and the Congress. The work was conducted under the authority of Public Law No. 110-181, as amended; the Inspector General Act of 1978; and the Inspector General Reform Act of 2008.

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

## Introduction

Building increasingly self-reliant and sustainable Afghan National Security Forces (ANSF) remains a key objective of the United States in Afghanistan. Since 2005, Congress has appropriated over \$52 billion to the DOD Afghan Security Forces Fund (ASFF) to equip, train, base, and sustain the ANSF. In order to sustain its security forces, the Afghan government requires, in part, the financial capacity to pay salaries; procure food and equipment; and build and maintain infrastructure for the Afghanistan National Army (ANA) and Afghanistan National Police (ANP). In 2010, the international community, including the United States, committed to provide at least 50 percent of development aid directly through on-budget assistance—funding that is channeled directly through the Afghan government’s core budget. On-budget assistance is designed to allow the Afghans more freedom to manage their own budget and to build their capacity for doing so. On-budget assistance can take many forms, including direct assistance,<sup>1</sup> contributions to multi-donor trust funds, and direct budget support. DOD reports that as of September 2013 it has committed \$4.2 billion and disbursed nearly \$3 billion in direct assistance to the MOD and MOI for the sustainment of the ANSF (procurement of food, goods and services; funding salaries; and funding minor construction). These funds are overseen by CSTC-A, the military command responsible for the training and development of the ANSF.

As part of SIGAR’s ongoing effort to monitor federal agencies’ use of direct assistance in Afghanistan, we initiated this project to review DOD’s safeguards for ensuring that funds provided to the MOD and MOI are properly managed and safeguarded to protect against possibilities of waste, fraud, and abuse. This report (1) describes the process used by DOD to assess the MOD and MOI’s capacity to manage and account for direct assistance, and (2) assesses measures put in place by DOD to mitigate any financial management and internal controls weaknesses identified at the MOD or MOI. We also provide our observations and propose suggestions that may improve oversight of direct assistance funding.

To conduct this review, we examined CSTC-A documentation related to the ministerial planning and assessment process, including Ministerial Development Plans (MDPs), ministry assessments and reviews, and MOD and MOI Master MDPs. We also reviewed CSTC-A’s direct assistance standard operating procedures, and DOD guidance on providing direct assistance. We interviewed CSTC-A personnel stationed at Camp Eggers in Kabul, Afghanistan; officials from DOD’s OSD (Policy) and OSD (Comptroller); and officials from the office of the Joint Staff. We also interviewed officials from MOI-Finance (MOI-F). We conducted this review in Washington, D.C. and Kabul, Afghanistan from May to August 2013. This work was conducted under the authority of Public Law No. 110-181, as amended; the Inspector General Act of 1978; and the Inspector General Reform Act of 2008.

## Summary

CSTC-A has committed \$4 billion and disbursed \$3 billion in direct assistance to the MOD and MOI. CSTC-A utilizes the Capability Milestone (CM) rating system and the related MDPs to assess the financial management capacity and controls of separate offices within the ministries with responsibility for managing and executing direct assistance funding. However, the current process examines the capacity and controls of individual offices within the ministries and does not include an understanding of the capabilities and risks associated with executing funds across the ministries and within the Afghan government budget and execution processes. The current process does not enable CSTC-A to determine core functional capacity across each ministry, provide trainers and decision makers with a holistic understanding of systemic shortcomings of each ministry’s

---

<sup>1</sup> DOD organizations refer to direct assistance as direct contributions. For the purposes of this report, we use the term direct assistance.

overall financial management capacity, or identify risks associated with capacity weaknesses. CSTC-A does conduct financial risk assessments for some, but not all, Afghan budget requirements for direct assistance, as part of the budget process required by its standard operating procedures. However, these risk assessments are limited to financial risks associated with the procurement of a particular good or service. CSTC-A also does not incorporate in its assessment process any financial management assessments of other Afghan institutions involved in the budget process, such as the Ministry of Finance (MOF). Further, CSTC-A has never disapproved a direct contribution expenditure based upon risk assessment findings. In addition, the CM ratings of individual ministry offices are largely subjective and cannot be compared over time. Furthermore, the CSTC-A unit responsible for building financial management capacity in the ministries and providing oversight for U.S. direct assistance funding—the CJ8 Directorate—has no formal role in the CM rating process.

Even without a comprehensive, objective risk assessment of MOD and MOI's financial management capabilities, CSTC-A has identified some financial management and internal control challenges at the two ministries, such as weak accounting practices and ineffective training on accounting systems. CSTC-A has implemented several measures to address the financial management and internal control weaknesses it has identified. Measures include (1) the realignment of CSTC-A's advising and mentoring model from an office-based model to a functional advising model,<sup>2</sup> (2) placement of Afghans with financial management expertise within the ministries to help build expertise and capacity, (3) increased coordination with International Security Assistance Force (ISAF) personnel working directly with the MOF, and (4) a proposed process to withhold direct assistance in the event that unauthorized spending is discovered. As part of its oversight procedures, CSTC-A also requires audits of the Afghan electronic accounting database—its budget accounting system—and of various Afghan government financial records including related contracts, payment vouchers, goods received notifications, invoices, payroll allocation forms, and payroll summaries.

We are making one suggestion to the Secretary of Defense and two suggestions to the CSTC-A Commander to assist in more accurately assessing and mitigating weaknesses in the financial management and internal control of direct assistance funds provided to the MOD and MOI. OSD concurred with our suggestion that the Secretary of Defense consider conducting a comprehensive assessment of MOD and MOI financial management capacity. In commenting on a draft of this report, CSTC-A concurred with our suggestion to ensure that CJ8 mentors and advisors are included in the assessment process. CSTC-A also concurred with our suggestion to reassess CJ8 staffing levels to ensure adequate capacity to fulfill its oversight mission. However, CSTC-A stated that it conducts risk assessments in the form of CM ratings as well as using CSTC-A's and outside agency's reports and audits. CSTC-A also highlighted its plans to move from an office-based to a functionally-based mentoring and advising model and highlighted its plans to implement "levers" to ensure better budgetary controls in the ministry.

## Background

The ANSF is comprised of the ANA and the ANP. The MOD is responsible for building and sustaining the ANA, and the MOI is responsible for building and sustaining the ANP.<sup>3</sup> In a February 2011 memo, DOD approved

---

<sup>2</sup> Under a functional advising model, advisors would be assigned to a functional category as opposed to an individual ministry office. For example, a finance or acquisition advisor would work with various ministry offices with procurement and acquisition functions within the Ministry as opposed to a single acquisition-related office.

<sup>3</sup> ANP includes the Afghan Uniformed Police, Afghan National Civil Order Police, Afghan Border Police, and Afghan Counter-Narcotics Police.



direct assistance funding for the MOD and MOI to “build their capability and support Afghan security forces.”<sup>4</sup> The DOD memo authorized direct assistance so the MOD and MOI could procure food, goods, and services; fund salaries; and fund minor construction. CSTC-A is responsible for the assessment, management, and disbursement of these direct assistance funds. The 2011 DOD memo requires CSTC-A, in the development of its annual direct assistance plan for the two ministries, to consider (1) the capability of the MOD and MOI to execute increasing sums of contributions and (2) the capability of CSTC-A to provide sufficient oversight and partnering. CSTC-A’s standard operating procedures for direct assistance designates CSTC-A’s CJ8 Directorate as the comptroller for the CSTC-A budget and the unit responsible for building financial management capability in the ministries and providing oversight of U.S. direct assistance funding to the MOD and MOI.<sup>5</sup>

Since 2011, CSTC-A has provided both ministries with direct assistance funding using bilateral assistance or multilateral assistance through a United Nations (UN) trust fund. As of September 2013, DOD reported that it had committed \$4.2 billion in total direct assistance to the two ministries and disbursed nearly \$3 billion. Table 1 provides DOD’s reported direct assistance disbursements to the MOD and MOI by Afghan solar year and Western calendar year, as of September 2013.<sup>6</sup> It is likely that additional DOD funding requests to support the ANSF will include direct assistance funding.

**Table 1: Direct Assistance Disbursements to the MOD and MOI, as of September 2013 (USD in millions)**

Afghan Ministry	Solar year 1390 (March 2011- March 2012)	Solar year 1391 (March 2012 - December 2012)	Solar year 1392 (January 2013 - December 2013)	Solar years 1390- 1392 (March 2011- December 2013)
MOD	\$426.8	\$637.7	\$947.1	\$2011.6
MOI <sup>a</sup>	\$325.6	\$168.5	\$491.7	\$985.8
<b>Total</b>	<b>\$752.4</b>	<b>\$806.2</b>	<b>\$1,438.8</b>	<b>\$2,997.4</b>

<sup>a</sup> A portion of U.S. direct assistance funding for the MOI is provided by DOD through the multilateral UN Law and Order Trust Fund for Afghanistan.

Source: CSTC-A

Because the MOF manages and executes the Afghan budget, CSTC-A provides direct assistance funding for the ANSF to an MOF account at Da Afghanistan Bank (Afghanistan’s central bank). The MOD and MOI have procurement authority for these funds, but the MOF is responsible for the account controls and payment transfers made with these funds. See Appendix I for more information about the distribution of DOD direct assistance funds to the two Afghan ministries.

<sup>4</sup> Under Secretary of Defense (Comptroller), memorandum, “Interim Guidance on Afghanistan Security Forces Fund (ASFF) Contributions to the Government of the Islamic Republic of Afghanistan (GIROA),” February 4, 2011, p. 2.

<sup>5</sup> NATO Training Mission Afghanistan, *Afghanistan Security Forces Funds Direct Contributions Standard Operating Procedures*, October 7, 2012.

<sup>6</sup> The solar Hijri calendar is the official calendar of the government of Afghanistan. CSTC-A disburses direct assistance funding to the Afghan government based upon the Afghan government budget cycle. Solar Year 1391 ended in December 2012, as opposed to March 2013 in order to facilitate a change in fiscal year.

## CSTC-A's Capability Assessments of the MOD and MOI

CSTC-A deploys advisors to the MOD and MOI to work with Afghan officials in building their ministerial capability.<sup>7</sup> CSTC-A has identified the ministry offices that have financial and/or acquisition authority. MOI offices include Facilities, Finance, Logistics, and Procurement. MOD offices include Finance; Acquisition, Technology and Logistics; the Construction and Property Management Division; General Staff G8 (finance); and General Staff G4 (logistics). CSTC-A advisors use the CM rating system to measure and track the progress made by each ministry office in improving its capability to operate independent of Coalition assistance. The CM rating itself is determined by criteria defined in each office's MDP. Six CM ratings are used to indicate the degree of Coalition assistance required for a given unit or ministerial office to fulfill its mission.<sup>8</sup> Table 2 describes the six CM ratings, as determined by CSTC-A.

**Table 2: CSTC-A's Capability Milestone Rating System for the MOD and MOI**

CM Rating	Coalition Assistance Required to Fulfill Mission
CM-1A	Capable of autonomous operations.
CM-1B	Capable of executing functions with Coalition oversight only.
CM-2A	Capable of executing functions with minimal Coalition assistance.
CM-2B	Can accomplish its mission but requires some Coalition assistance.
CM-3	Cannot accomplish its mission without significant Coalition assistance.
CM-4	Exists but cannot accomplish its mission.

Source: CSTC-A

CSTC-A assigns a senior advisor to the director of each major office within the MOD and MOI. The CSTC-A senior advisor and his/her subordinate advisors work with the directors and the directors' staff. The senior advisor and subordinate advisors are responsible for preparing the MDP and determining the CM rating for the ministry office. The MDPs define benchmarks the offices must achieve to reach each CM.<sup>9</sup> According to CSTC-A senior advisors and personnel, MDPs are regularly revised by senior advisors in order to reflect changes in the offices' staffing, objectives, or responsibilities.

To determine the CM rating, each senior advisor compares the capability of the office to criteria contained in the office's MDP. According to senior officials at CSTC-A, once a senior advisor has determined the CM rating, the respective ministry's Ministerial Development Board (MDB) verifies and approves it. CM ratings are verified and approved by the MDB once a quarter for the MOD and once every six months for the MOI. According to the Director of Ministerial Development at CSTC-A, the MOI development board consists of the CSTC-A Deputy

Commander for Police Development, the Ministry Chief of Staff, the Ministry Director of Police Development, a representative from the European Union Police Mission Afghanistan, and a representative from the ISAF Joint Command. The CM rating for each MOI office is reviewed by the board every six months. According to a senior CSTC-A official, CSTC-A's Chief of Advisors-Deputy Command for Army Development serves as the sole member of the MOD ministerial development board. The Chief of Advisors reviews and approves CM ratings for every MOD office. For both the MOD and MOI, a flag officer, usually the CSTC-A Deputy Commander, must approve any recommendation for a CM-1B or CM-1A rating.

<sup>7</sup> Senior advisors and mentors can be federal civilian employees or contractors.

<sup>8</sup> The CM rating system is similar, but not identical, to the Regional Command ANSF Assessment Report, a CSTC-A assessment of the capability and readiness of Afghan military units. SIGAR is conducting an audit of the system used to assess Afghan military units' capability and readiness and expects to release a report later this year.

<sup>9</sup> For example, the most recently approved MDP for MOI-Finance states that "75% of ANP personnel are paid accurately and on-time" for the office to reach CM-3.

## CSTC-A Conducts Requirements-Focused Financial Risk Assessments but Has Not Conducted a Comprehensive Risk Assessment of the Afghan Government's Capacity to Manage and Account for U.S. Direct Assistance Funding Provided for the ANSF

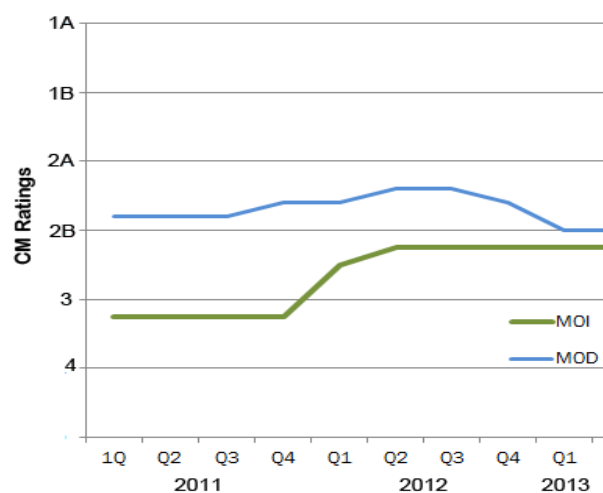
Although the process of allocating and executing direct assistance for the ANSF funding involves three separate ministries—the MOD, MOI, and MOF—and several offices within each of the ministries, CSTC-A has not conducted a comprehensive risk assessment that includes an assessment of the capacity and controls for financial management within the MOD and MOI or between the two ministries and the MOF. According to CSTC-A officials responsible for overseeing direct assistance funding, CSTC-A utilizes the CM rating system to assess the financial management capability and controls of separate offices within the ministries that have responsibility for managing and executing direct assistance funding. The CM rating system is intended to provide only a measure of capabilities for the purposes of establishing functional offices with defined roles within the ministry. This system does not provide CSTC-A with an overall assessment of the capacity to manage and account for funds across the multiple offices within each ministry. According to government standards for internal control,<sup>10</sup> effective financial management should include an assessment of core functions, including, but not limited to:

- Accountability and control environment,
- Financial management and accounting capacity,
- Procurement and asset management capacity,
- Contracting process and mechanisms, and
- Management of personnel and payroll.

CSTC-A has identified five offices in the MOD and four offices in the MOI that are “key nodes for resource management and acquisition.”<sup>11</sup> Figure 1 illustrates the average CM rating for these offices from the beginning of 2011 through the second quarter of 2013. According to the CM rating process, offices in the MOI experienced a spike in capability in the beginning of 2012 but have not progressed since the beginning of the third quarter of 2012. The CM ratings of MOD offices with financial management responsibilities decreased slightly over the second half of 2012.

CSTC-A advisors to the MOD and MOI offices conduct narrowly-scoped financial risk assessments for direct assistance-funded budget requirements, as required by CSTC-A's direct assistance standard operating procedures. Risk assessments must be sent to CSTC-A's CJ8 commander for approval as part of the direct assistance budget justification process. These risk assessments are focused on the risk to funding/procured goods and do not provide a risk assessment of financial management capabilities. The financial risk assessments are narrow in scope, focus on funding for single

**Figure 1: Average CM Rating for MOI and MOD Offices with Financial Management Responsibilities, 2011 – First Quarter 2013**



Source: CSTC-A

<sup>10</sup> Government Accounting Office, *Standards for Internal Control in the Federal Government*, November 1999.

<sup>11</sup> MOI offices include Facilities, Finance, Logistics, and Procurement. MOD offices include Finance, Acquisition Technology and Logistics; Construction and Property Management Division; the Afghan National Army General Staff G8; and the Afghan National Army General Staff G4.



direct contribution requirements, and are inconsistently executed. CJ8 has reportedly never disapproved a direct contribution expenditure based upon risk assessment findings.

According to the CSTC-A direct assistance standard operating procedures, a risk assessment template is included in a yearly fragmentary order from the CJ8 to advisors requesting requirements identification. CSTC-A procedures require that senior advisors fill out and submit this template to CJ8 for each specific budget requirement. The risk assessment template consists of a single PowerPoint slide and provides spaces where the advisor should briefly describe (1) the likelihood of funds or procured goods for a single direct assistance project being misused or pilfered, (2) the impact of the requirement upon accomplishing the unit's mission, and (3) potential risk mitigation measures for that specific requirement. Despite the required submission under CSTC-A's direct assistance procedures, we found that CJ8 did not receive risk assessment submissions for all direct assistance budget requirements.

During this review, the CJ8 was only able to identify risk assessments conducted for MOD budget requirements for solar year 1392 (January – December 2013), amounting to only \$615.9 million, or 49 percent of the total MOD direct assistance budget contribution. CSTC-A reported that no risk assessments were turned in by CSTC-A advisors for MOI direct assistance requirements. Although \$294.7 million of U.S. direct assistance has been committed for MOI payroll through the multilateral UN Law and Order Trust Fund for Afghanistan, no risk assessments were conducted for the remaining \$453 million in bilateral U.S. direct assistance funding budgeted for the MOI.

#### **CSTC-A's Direct Assistance Process Does Not Include Assessments of MOF Financial Management Capabilities**

According to a CSTC-A official who regularly works with the MOF, although the MOF plays a key role in the management and execution of U.S. direct assistance funding provided for the ANSF, the CSTC-A assessment process does not incorporate any financial management assessments of the MOF. According to CSTC-A senior advisors and CJ8 officials, the capabilities of the MOF are not included in their decision-making regarding direct assistance. All interactions between CSTC-A and the MOF are limited to one designated liaison and, when necessary, direct engagement by CSTC-A senior leadership. Although the U.S. Agency for International Development (USAID) has conducted pre-award assessments for the MOF and several other ministries, we were informed in June 2013 that CSTC-A was not aware of USAID's assessment of the MOF.<sup>12</sup> At that time we suggested that CSTC-A obtain information from USAID regarding its assessment and related risk mitigation measures for its consideration in the direct assistance process.<sup>13</sup> In September 2013, a CJ8 official informed us that they had recently obtained the USAID assessment and planned to engage with USAID personnel regarding any identified financial management capacity gaps at the MOF.

Even without any formal information regarding risk assessments of MOF financial management, CSTC-A officials reported that they have encountered examples of financial management challenges at the MOF impacting the direct assistance process. Several CSTC-A officials told us that accounting practices with the MOF have impacted transparency and controls over the funds. For example, the MOF's treasury office uses a different set of accounting codes than its budgeting office. This practice of utilizing different accounting codes complicates financial planning and reconciliation of expenditures between the two departments.

---

<sup>12</sup> USAID hired the Ernst and Young accounting firm to "assess whether MOF has sufficient financial management systems and capacity to manage USAID funds in accordance with [Afghan Government] requirements." The intention was to determine the risks to U.S. direct assistance funding provided to the Ministry of Finance. The final assessment was completed in January 2013.

<sup>13</sup> SIGAR is conducting a separate audit of USAID's assessment of 15 ministries, including the MOF. That report will be out later this year.

CSTC-A officials also noted that the MOF's resistance to using more detailed accounting codes, which are intended to provide greater visibility over the use of U.S. direct assistance funds, has reduced the transparency over the use of these funds. CSTC-A officials stated that in early 2013 the MOF reverted to using three-digit accounting codes for ANSF funding categories, rather than the five-digit accounting code, as previously agreed.<sup>14</sup> Budgeting and tracking expenditures using a five-digit accounting code is labor intensive for the ministries, but it also provides more detail about how funds are spent, according to CSTC-A officials. For example, the MOF's three-digit code for "repairs and maintenance" allows for any repairs or maintenance, regardless of the funding source, to be tracked under this accounting code. Under this code, there are 19 five-digit codes providing greater specificity regarding how the funds are used. These five-digit codes also allow CSTC-A to determine if the expenses were in categories eligible for U.S. direct assistance. For example, sub-categories listed under the five-digit codes for "construction equipment," "energy generating equipment," and "water supply and canals" are eligible for U.S. direct assistance, while "broadcasting equipment" and "military equipment" sub-categories are not eligible for direct assistance. Due to the amount of labor involved in using the five-digit codes, the MOF refused to use them to track expenditures. In September, CSTC-A informed us that MOF is now using the five-digit codes for the tracking of expenditures, as requested, but not for budgeting purposes. CSTC-A officials indicated that they were satisfied with this arrangement as it provided CSTC-A with greater visibility on the expenditures of these funds.

#### **CSTC-A's CM Rating System is Largely Subjective and Does Not Provide A Good Comparison of Improvement Over Time**

The CM ratings of individual ministry offices are largely subjective and cannot be compared over time. The MOD Master Ministry Development Plan<sup>15</sup> states, "Due to the subjective nature of operational and strategic-level advising, imposing a system of rigorous, authoritative, and valid progress measurements is difficult when working with MoD." Reportedly, CSTC-A Senior Advisors to the MOD and MOI regularly revise the metrics used for evaluation within the individual MDPs. As a result, the metrics used to provide a CM rating for each evaluated ministry office has changed multiple times over the years. According to the CSTC-A senior advisors we met with, these revisions to the MDPs are made to incorporate changing conditions and lessons learned.

Different advisors may have different interpretations of the same criteria. According to a CSTC-A official, the CM rating is a combination of quantitative and qualitative metrics and therefore includes some subjectivity. For example, in November 2012, the newly arrived senior advisor downgraded the MOD Acquisition, Technology, and Logistics Office's CM rating from 1B to 2B. The MDP objective stated that this office was "responsible for procuring all classes of supply necessary to responsively meet ANA requirements." However, at that time, the MOD was only responsible for procuring three classes of supply and those classes were considered simplistic and not representative of "all classes of supply." Because the MOD had not yet procured the more complex supplies, the new Senior Advisor concluded that the previous advisor's 1B CM rating did not accurately depict the MOD's ability to meet the objective.<sup>16</sup>

---

<sup>14</sup> According to the commitment letters for ANSF funding, signed by the CSTC-A Commanding General and the Ministers of Finance, Interior, and Defense, it was agreed that the more detailed five-digit accounting codes would be used to account for budgeting and expenditures, rather than three-digit accounting codes.

<sup>15</sup> The Master Ministry Development Plan provides guidance for senior advisors developing their respective MDPs.

<sup>16</sup> In a response to a draft of this report, CSTC-A emphasized that there is a defined process for reviewing and changing CM ratings that include decision points for senior CSTC-A officials. CSTC-A stated that the CM rating downgrade described here followed the appropriate process and received all of the required approvals from CSTC-A officials.

### **CSTC-A Directorate Responsible for Financial Management Capacity Building and Direct Assistance Oversight Has No Formal Role in CSTC-A's Assessment Process**

CSTC-A's CJ8 Directorate, the unit responsible for building financial management capacity in the ministries and providing oversight for U.S. direct assistance funding, does not have a formal role in the CM rating process. Rather, the CJ8 Directorate Financial Management Oversight Office (FMO) is responsible for overseeing direct assistance provided to the MOD and MOI and building capacity within the MOD and MOI finance offices.

Personnel from the CJ8 FMO serve as advisors and mentors to the staff of the MOD and MOI finance offices. Although the CJ8 FMO may have significant experience with the ministry finance office staff, the CJ8 Directorate has no formal role in CSTC-A's CM rating assessment process. One CJ8 advisor for payroll recounted that, while traveling to the provinces to inspect the ministry's provincial capacity, serious gaps were identified in payroll accountability. The advisor also identified literacy as a systemic capacity gap throughout the ministries. For example, he found that the senior officer in charge of payroll for the Afghan Civil Order Police was illiterate and could not read the payroll documents that he was required to sign and approve. Gaps in payroll accountability and the appointment of senior officers who lack basic literacy skills to positions of financial authority present a significant financial management risk for the MOI. Salary, wages, and food expenses represented nearly 63 percent of the total solar year 1392 (January - December 2013) MOI budget. However, according to the CJ8 advisor, these factors were not included in the CM rating for the MOI finance office and he was not consulted in its payroll capability assessment.

The designated CSTC-A senior advisor, responsible for developing the MDP for the office and recommending a CM rating, reports the CM rating recommendations through an advising command. The senior advisor has a liaison role with CSTC-A's CJ8 office but does not interact with the advisors and mentors from the FMO, according to the FMO commanding officer and several advisors and mentors from FMO.

### **CSTC-A Has Taken Steps to Mitigate Financial Management Weaknesses Identified at the MOD and MOI and Improve Its Oversight of Direct Assistance Funds but It Is Impacted by Staffing and Security Challenges**

According to CSTC-A's standard operating procedures, oversight of direct assistance funds includes the requirement for an audit of the Afghan electronic accounting database. It also requires an audit of various Afghan government financial records including related contracts, payment vouchers, goods received notifications, invoices, payroll allocation forms, and payroll summaries. Per CSTC-A's standard operating procedures, CJ8 personnel are required to examine financial records associated with any direct assistance in order to ensure that U.S. funds were spent on eligible goods and services.<sup>17</sup> When CJ8 personnel identify an inappropriate expenditure, CSTC-A command takes action to rectify the error by sending a letter to the respective Afghan Minister requesting rectification of the funds, either through correcting an accounting error or expenditure payment with Afghan government funds. If the inappropriate expenditure is not addressed by the ministry, CSTC-A has the ability to hold back equivalent funding from future direct assistance disbursements. For example, in April 2013, the CSTC-A Commanding General sent a letter to the Afghan Minister of Defense requesting reconciliation for 151 transactions worth \$2,832,938 identified by a CSTC-A audit as unauthorized transactions of U.S. direct assistance funds.

Staffing and security challenges limit CSTC-A's oversight capabilities, according to CSTC-A officials. Specifically, the CJ8 Directorate has reported that it is understaffed for its capacity-building and oversight responsibilities

---

<sup>17</sup> According to the authorizing memo and CSTC-A commitment letters, U.S. direct assistance can be spent on certain classes of goods and services including food, salaries, fuel, and uniforms.

and that it lacks financial auditing experience among its personnel. In addition, the security conditions have impacted CSTC-A's ability to advise and assess the MOI and MOD.

- **CJ8 Is Understaffed Relative to Its Oversight Responsibilities:** A senior CJ8 officer stated that the organization is understaffed relative to its responsibilities. CJ8 is currently staffed by 40 personnel (military and contractors) and its financial management oversight activities for direct assistance funds are limited to verification of proper accounting for these funds by the ministries. While CJ8 regularly identifies and seeks rectification for improperly coded or expended funds, CJ8 does not have the capacity to verify proper spending through spot checks or other inspections. To execute its oversight function, CJ8 reviews entries in the electronic accounting system. According to one CJ8 official, "you have to assume the data is sound; so it's simply a matter of looking for mistakes." As a result, if fraudulent expenditures are properly coded within the accounting system, it is unlikely that CJ8 will identify the fraudulent activity. The official stated that he believes it to be possible that corrupt practices have occurred where fraudulent expenditures have been properly coded into the electronic accounting system. Additional reductions in CJ8 staff will likely degrade even these basic oversight functions. By December 2013, staffing is expected to drop to 29 total positions as part of the military drawdown. In September 2013, CSTC-A officials indicated that they have raised concerns about low staffing levels with CENTCOM and that hiring more contract personnel may be considered if a sufficient number of military personnel cannot be maintained.
- **CJ8 Lacks Financial Auditing Experience:** The majority of CJ8 personnel who conduct oversight of direct assistance are not trained financial auditors, according to CJ8 officials. Most of the military officers assigned to CJ8 are budget and acquisition specialists, rather than trained auditors. According to CJ8 personnel, these officers must learn a new task and become familiar with the Afghan government budgeting, acquisition, and accounting system. CJ8 personnel stated there is a long period of learning before officers are fully acquainted with all aspects of the job. Frequent staff rotations compound the challenges which lead to potential deficiencies in CJ8's oversight capacity.
- **Need for Increased Security Measures Impacts CSTC-A's Ability to Access the MOI and MOD:** CSTC-A issued new orders requiring increased security measures for all CSTC-A visits to Afghan ministries, reducing interaction between advisors and their Afghan mentees. The policy, which was put into place in response to attacks by Afghan soldiers and police officers on their Coalition advisors and partners, requires uniformed military or government civilian to provide security for all Coalition attendees. According to senior advisors, this has limited the amount of time they spend on-site at the ministries and has prevented individuals in CJ8 and other staff offices from performing their primary duties.

Oversight activities limited by low staffing levels, a lack of financial auditing expertise, and limitations to access due to insecurity have the potential to allow erroneous and fraudulent use of U.S. direct assistance to remain undetected, potentially leading to waste and distorting assessments of MOD and MOI financial management capacity.

CSTC-A has recognized that transparency and accountability in the execution of direct assistance funding is crucial to maintaining U.S. and international donor confidence that funds are being spent appropriately. CSTC-A also acknowledges that unaddressed fraud, waste, and corruption may lead donors to question the value of continued assistance to Afghanistan, resulting in a reduction or termination of ANSF contributions. CSTC-A has identified some financial management and internal control challenges at the MOD and MOI, such as weak accounting practices and insufficient training on accounting systems. In response to the weaknesses identified, CSTC-A has implemented several measures to improve oversight for direct assistance. These measures include (1) the planned realignment of CSTC-A's advising and mentoring model from an office-based model to a functional model, (2) placement of Afghans with financial management expertise within in the ministries to help build expertise and capacity, (3) increased coordination with ISAF personnel working directly with the MOF, and (4) "levers" included in the direct assistance commitment letters to the MOD and MOI to encourage transparency and accountability through a codified process to withhold direct assistance in the event that unauthorized spending is discovered.



- **Realignment of CSTC-A's advising and mentoring model from an office-based model to a functionally-based model:** CSTC-A's current mentoring and advising model focuses on single offices within the ministries. CSTC-A advisors and mentors are assigned to a directorate or office within each ministry. For example, a defense acquisition advisor will advise the MOD Acquisition, Technology, and Logistics Office. However, financial management capacity is a function of many offices working together. To better address cross-cutting capabilities, CSTC-A is planning on moving from an organizationally-based advising model to a functionally-based advising model. According to senior CSTC-A officials, under the proposed realignment, advisors would work in teams under functional areas, such as finance or logistics. In September 2013, CSTC-A officials informed us that the reorganization would be completed by January 2014.
- **Placement of Afghans with financial management expertise within the ministries to help build expertise and capacity:** CSTC-A is providing funding for an Afghan initiative to build financial expertise and capability by placing financial management subject matter experts (SMEs) in the MOD and MOI. According to CSTC-A, the SMEs are highly-educated professionals with experience in financial management that provide training to ministry personnel and assist in the development of financial plans and policies. According to CSTC-A advisors, the SMEs face some institutional resistance, specifically because they are young and well-paid compared to other ministry personnel and many have spent a significant amount of time outside of Afghanistan. Reportedly, many have encountered some resistance from senior officials and others in the ministry to their proposed changes for improving financial management policies and processes. The use of SMEs is likely to continue only for the duration of Coalition financial assistance, as the ministries are unlikely to support their salaries without foreign assistance.
- **Increased coordination with ISAF personnel working directly with the Afghan MOF:** In an April 2013 letter to the Minister of Finance, the CSTC-A Deputy Commanding General requested the establishment of a CSTC-A liaison cell at the MOF. According to the letter, the liaison cell was intended to "improve coordination on budget, payment, and banking issues as well as develop a better understanding of systems interaction." In September 2013, CSTC-A informed us that the planned liaison cell had been cancelled. Instead, CSTC-A personnel had begun to participate in weekly coordination meetings with ISAF non-security ministry advisors who work directly with the MOF.
- **Defined process for withholding direct assistance in the event that unauthorized spending is discovered:** According to senior CSTC-A leadership the CSTC-A Financial Management Oversight Branch is defining a process to enforce budgetary controls through a "throttle" that will constrict the flow of direct assistance funds upon the discovery of significant erroneous or fraudulent expenditures. This process is intended to allow CSTC-A personnel the flexibility to escalate punitive withholdings in response to unauthorized use of funds and to identify training requirements for the ministries. According to the plan, if a significant discrepancy is discovered through audits and is not rectified, future disbursements of direct assistance will be withheld in the affected expenditure category in escalating amounts according to a defined schedule. According to a senior official, on an ad-hoc basis, CSTC-A has implemented a similar policy for withholding funds when inappropriate expenditures are identified—usually only for the amount of the unauthorized purchase. This new plan defines the schedule, makes intention to withhold funds explicit, and adds the punitive element of escalating withholdings. Encouragingly, draft commitment letters for SY1393 (January – December 2014) direct assistance funding to the ministries include strict requirements for budgetary controls and set out the process and schedule by which funds will be withheld in the event of inappropriate expenditures. Earlier commitment letters did not include such strictly defined budgetary control requirements. In order to mitigate the risk of limited auditing capacity at the CJ8 to the efficacy of the "throttle," CSTC-A senior leadership plans to leverage all U.S. and international oversight capacity available to ensure that inappropriate expenditures are identified. If implemented consistently by CSTC-A, we believe that this process could be an effective tool in improving budgetary controls at the MOD and MOI.

## Conclusion

Direct assistance brings with it a number of risks. Funds provided through direct assistance are typically subject to less U.S. and donor community oversight than funds provided through projects implemented by U.S. and donor community government agencies. Reduced oversight leaves direct assistance funds particularly vulnerable to waste, fraud, and abuse. Because of the well-documented concerns about the Afghan government's capacity to manage direct assistance funds, it is especially important for the United States to accurately assess the capacity of Afghan ministries to assume responsibility for U.S. direct assistance funds provided for the ANSF. Such assessments should help inform direct assistance funding decisions. Although the United States has already provided nearly \$3 billion in direct assistance for the ANSF and DOD plans to provide increased amounts of direct assistance for the ANSF, a comprehensive risk assessment has never been conducted by DOD to determine the financial management capacity or associated risks for U.S. funds. Those who work the closest with these ministries—CSTC-A advisors—are aware of weaknesses in capacity at the defense and interior ministries, but they have limited visibility or influence over the ministries' overall financial management process. Without a comprehensive assessment, DOD cannot fully identify the risks to U.S. funds nor develop sufficient mitigation measures to address those risks. Consequently, DOD cannot be assured that the funds provided directly to the Afghan government to fund and equip the ANSF are sufficiently protected and used as intended.

We understand that the CM rating system and the associated MDPs were designed to track and facilitate the development of the capability of individual offices within each ministry, but they were not designed to produce an aggregate assessment of ministerial capability as a whole, financial or otherwise. Therefore, the current assessments do not provide a complete picture of overall financial management capacity.

## SUGGESTIONS

---

To comprehensively assess the capacity of the Afghan government to manage and account for U.S. direct assistance funds provided for the ANSF, we suggest that the Secretary of Defense consider:

1. **Conducting an independent assessment that would comprehensively assess financial management capabilities and risks within the Afghan Ministries of Defense and Interior and in relation to the Afghan MOF. Such an assessment could include:**
  - a. **Identifying the capabilities for core financial management functions within the MOD and MOI, to include accountability and control environment, financial management and accounting capacity; procurement and asset management capacity; contracting process and mechanisms; and management of personnel and payroll;**
  - b. **Identifying major risks and mitigation strategies deemed necessary for ensuring that the ministries are able to manage U.S. direct assistance; and**
  - c. **Incorporating the results of USAID's assessment of MOF.**

To strengthen CSTC-A's oversight capabilities to safeguard U.S. direct assistance funds provided for the ANSF, we suggest that the Commander, CSTC-A consider:

2. **Ensuring that CSTC-A CJ8 advisors and mentors are included in the CM rating process and any financial management risk assessment for the MOI and MOD.**
3. **Reassessing CSTC-A CJ8 staffing levels to ensure the branch has the capacity to properly fulfill its oversight responsibilities for ANSF direct assistance funding.**

## Agency Comments and Our Response

We received comments on a draft of this report from CSTC-A, CENTCOM, and OSD.

In the agency review draft of this report, the first suggestion was addressed to CENTCOM. In its response, CENTCOM non-concurred with the suggestion on the grounds that the command does not distribute or provide accounting support for the Afghan Security Forces Fund, the fund from which direct assistance to MOD and MOI are disbursed. CENTCOM stated that the suggestion should go to the Secretary of Defense. We agreed with their response and are making the suggestion to the Secretary of Defense. OSD concurred with the suggestion to arrange for a comprehensive assessment that would identify core financial management function and major risks to U.S. direct assistance funding within the MOD and MOI.

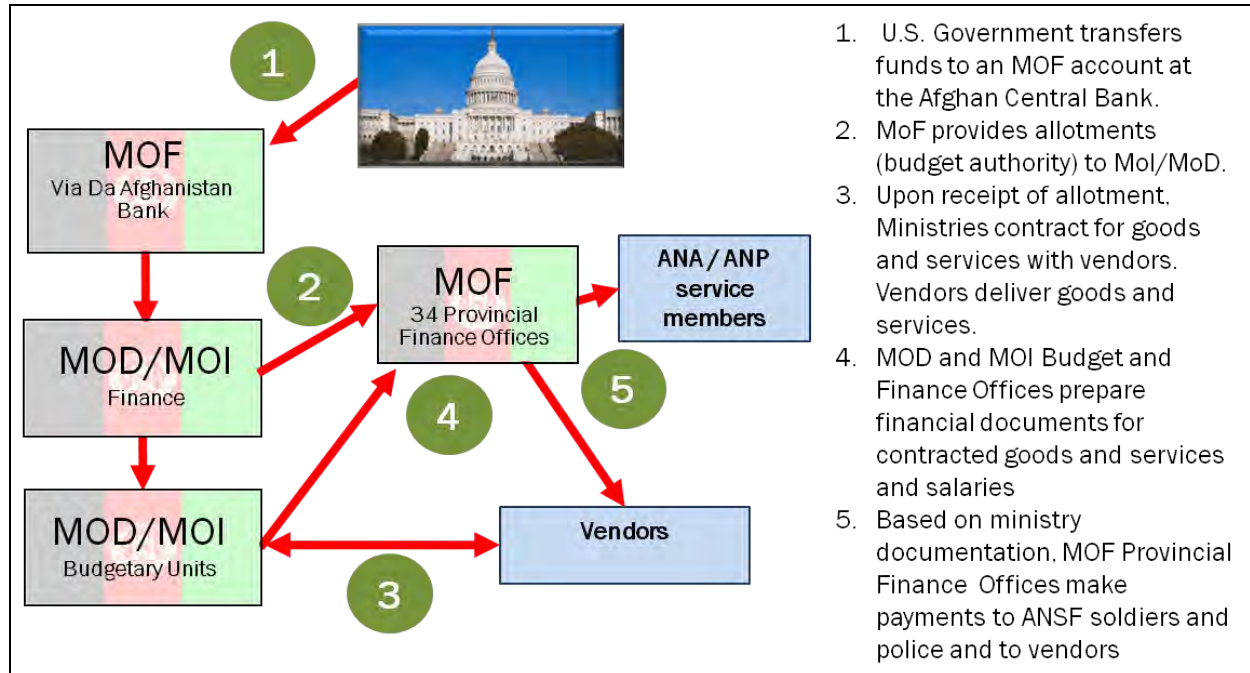
In its response, CSTC-A concurred with our suggestion to ensure that CJ8 mentors and advisors are included in the assessment process. CSTC-A also concurred with our suggestion to reassess CJ8 staffing levels to ensure adequate capacity to fulfill its oversight mission. However, CSTC-A stated that the command does conduct risk assessments of direct assistance funding to MOD and MOI. CSTC-A stated that it uses many sources of information to assess that risk, including CM ratings, CSTC-A audits, and audits and reports from outside agencies. CSTC-A also highlighted the shift in the mentoring and advising from an office-based model to a functionally based model. Moreover, CSTC-A stated that they were aware of the low staffing levels in the CJ8 before this review was undertaken. While we acknowledge that CSTC-A mentors and advisors rate the financial capabilities of offices within the ministry and CSTC-A's CJ8 conducts audits of MOD and MOI financial records, we do not believe that these elements constitute a comprehensive assessment of ministry capacity.

See Appendices II and III for full agency responses.

## APPENDIX I: FUNDING PROCESS FOR U.S. DIRECT ASSISTANCE TO THE ANSF

The United States provides funds directly to the MOD and MOI from the DOD ASFF. These funds are allocated to CSTC-A. As part of the annual budget development process, the Afghan ministries identify expenditures for the year that are eligible for direct assistance funding, in coordination with CSTC-A advisors. The MOF officially requests direct assistance from CSTC-A for the upcoming year for all eligible expenditures that have been identified and programmed into the final ministry budget request. In response, the CSTC-A Deputy Commanding General issues a commitment letter stating the amount of money that will be provided by the U.S. in the form of direct assistance. CSTC-A authorizes the disbursement of funding to the MOF through an electronic funds transfer on a quarterly basis. According to the CSTC-A liaison to the MOF, the MOD and MOI never control funds, but instead, the MOF allocates procurement authority on a quarterly basis to the ministries for the amount agreed upon in the ministries' budgets. Once a ministry has contracted for and received goods or services from a vendor, the ministry sends a payment voucher to MOF provincial finance offices. The MOF provincial office pays the vendor. Figure 2 illustrates the flow of U.S. direct assistance funding for the ANSF.

**Figure 2: Flow of U.S. Direct Assistance Funding for Afghan National Security Forces**



Source: CSTC-A



## APPENDIX II: COMMENTS FROM U.S. CENTRAL COMMAND<sup>18</sup>

---

UNCLASSIFIED



UNITED STATES CENTRAL COMMAND  
7115 SOUTH BOUNDARY BOULEVARD  
MACDILL AIR FORCE BASE, FLORIDA 33621-5101

29 October 2013

FOR: SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN  
RECONSTRUCTION, 2530 CRYSTAL DRIVE, ARLINGTON, VA 22202-3940

SUBJECT: Special Inspector General for Afghanistan Reconstruction (SIGAR) Report  
on Direct Assistance: Risk Assessments of MOI and MOD Capability to  
Manage and Account for Over \$4 Billion in Direct Assistance Funding (U)

REFERENCE: SIGAR Draft Report on Direct Assistance, October 2013, SIGAR-14-X-  
Special Projects

1. (U) In response to Special Inspector General for Afghanistan Reconstruction (SIGAR) Report on Direct Assistance, October 2013, SIGAR-14-X-SPECIAL PROJECTS, U.S. Central Command (CENTCOM) provides the following for consideration.
2. (U) Recommendation 1: The Commander, U.S. Central Command, arrange for an independent assessment that would comprehensively assess financial management capabilities and risks within the Afghan Ministries of Defense and Interior and in relation to the Afghan MOF.
  - a. (U) CENTCOM does not concur with SIGAR recommendation 1. CENTCOM does not distribute or provide accounting support to the Afghan Security Forces Fund (ASFF). In addition, CENTCOM does not have the authority or resources to task a comprehensive audit between governments such as that recommended.
  - b. (U) CENTCOM does not object to the SIGAR recommendation for an assessment of Afghan Government Ministries financial management capabilities and risk, but given the scope of such an effort and the consent and cooperation necessary from multiple Ministries, it would likely require an Inter-Agency level review, prefaced with a Memorandum of Agreement (MOA) between the Afghan Ministries of Finance, Defense and Interior, and include appropriate U.S. government stakeholders, such as the Departments of Treasury and State.
3. (U) CENTCOM recognizes the inherent risks in the direct assistance process. To address these risks, CENTCOM has proactively supported CSTC-A steps to improve staffing levels to ensure they have the capacity to properly fill oversight responsibilities for ANSF direct assistance funding. In addition, we support CSTC-A

UNCLASSIFIED

---

<sup>18</sup> The agency response to SIGAR's draft uses the term "recommendation" for what is defined as a "suggestion" in the final report.

UNCLASSIFIED

efforts to build Afghan Ministries of Defense and Interior capabilities through the Ministry Advisory Group.

4. (U) CENTCOM Point of Contact for this action is CDR Timothy G. Bellott. [REDACTED]  
[REDACTED]

*Elaine McCusker*

ELAINE McCUSKER, SES  
Director, Resources and Analysis

UNCLASSIFIED

## APPENDIX III: RESPONSE FROM COMBINED SECURITY TRANSITION COMMAND – AFGHANISTAN<sup>19</sup>



REPLY TO  
ATTENTION OF  
CSTC-A

HEADQUARTERS  
COMBINED SECURITY TRANSITION COMMAND - AFGHANISTAN  
MINISTERIAL ADVISORY GROUP  
KABUL, AFGHANISTAN  
APO AE 09356

28 OCT 2013

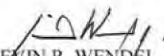
MEMORANDUM TIIRU United States Forces - Afghanistan (CJIG), APO AE 09356  
United States Central Command (CCIG), MacDill AFB, FL 33621

FOR Special Inspector General for Afghanistan Reconstruction, 2530 Crystal Drive, Arlington, VA  
22202-3940

SUBJECT: CSTC-A MAG Management Comments to SIGAR Special Report: "Direct Assistance: DOD  
Has Not Conducted Comprehensive Risk Assessments of MOI and MOD Capability to Manage and  
Account For Over \$4 Billion In Direct Assistance Funding" (SIGAR Special Report 14-X-SP).

REFERENCE: Special Report 14-X-SP, dated OCT 2013, Special Inspector General for Afghanistan  
Reconstruction (SIGAR).

1. The purpose of this memorandum is to provide management comments to the subject draft SIGAR Special Report.
2. CSTC-A appreciates the time and effort SIGAR put into researching and producing this report. It is clear from the report's contents that the auditors took to heart the wealth of data and background information provided by individuals across the NTM-A and CSTC-A enterprise. It's important to highlight some key points contained in the attached management comments:
  - a. CSTC-A does conduct risk assessments of MOI and MoD capabilities to manage and account for direct assistance. As a good steward of resources, CSTC-A continues to improve accountability and oversight of direct contributions, and leverages many sources to assess the capabilities and capacities of GIRA institutions to effectively plan, program and execute resources.
  - b. As CSTC-A approaches the transition from ISAF to RESOLUTE SUPPORT, the ministerial advising model is evolving from an office-based to a functionally oriented advising model where we will measure the effectiveness of the systems within the ministry vice the individual office.
  - c. CSTC-A identified financial manpower and expertise shortfalls prior to the SIGAR visit, and has taken numerous steps to address the shortfalls over the past few months. CSTC-A now appears to be on the right manpower path to provide reasonable oversight over direct financial contributions.
3. Point of contact for this action is CPT Matthew E. French at DSN [REDACTED] or via e-mail at [REDACTED]

  
KEVIN R. WENDEL  
Major General, US Army  
Commanding General

Encl  
CSTC-A Management Comments

<sup>19</sup> The agency response to SIGAR's draft uses the term "recommendation" for what is defined as a "suggestion" in the final report.



### CSTC-A MAG INSPECTION REPORT RESPONSE

"Direct Assistance: DOD Has Not Conducted Comprehensive Risk Assessments of MOI and MOD Capability to Manage and Account For Over \$4 Billion In Direct Assistance Funding"  
(SIGAR Special Report 14-X-SP)

#### I. Recommendation 2:

The Commander, Combined Security Transition Command-Afghanistan, ensure that CSTC-A CJ8 advisors and mentors are included in the CM rating process and any financial management risk assessment for the MOI and MOD.

##### *a. CSTC-A response:*

CSTC-A concurs with comment. The Capability Milestone (CM) rating process was not developed as a risk assessment tool. Contrary to SIGAR's portrayal, CSTC-A conducts risk assessments of MOI and MoD capabilities to manage and account for direct assistance required by the USD(C) memo dated Feb 2011. As a good steward of resources, CSTC-A is continuing to improve the accountability and increase the oversight of direct contributions based on its assessments of risk. CSTC-A uses many sources, including CM ratings, to assess the capabilities and capacities of GIRoA institutions to effectively plan, program and execute resources. Other sources include CSTC-A generated audits as well as independent audits and reports from U.S., ISAF, NATO, international and Afghan agencies, where available. CSTC-A is encouraging these independent agencies to augment the Joint Strategic Oversight Plan by identifying and tracking potential areas with less than desirable oversight.

CSTC-A leverages all these assessments in working with the Ministries of Defense and Interior to ensure they execute international contributions for the ANSF with transparency, accountability and oversight. CSTC-A understands the importance of this effort and works to ensure International Donors have assurances that their contributions are used effectively in sustaining the ANSF.

Key to this effort is CSTC-A's recent expansion of budgetary controls which govern the execution of direct contributions in the MOI/MOD FY 1393 budget. As the direct contributions process has evolved and matured, CSTC-A has expanded the scope of what's reviewed prior to the provision of funding and tightened the continuous reviews and controls applied after funds are provided. CSTC-A examines risk overall and then down to the 5-digit budget code to determine where direct assistance funding should be provided to develop ministerial resource management functions. CSTC-A's criteria in determining which budget codes and activities to receive direct contributions include: historical execution rates, transparency, accountability and oversight, capabilities and capacities of the ministries as well as prioritization of requirements. The FY1393 (Dec 2013-Dec2014) Commitment Letter between CSTC-A and the two security ministries is nearing completion. At nearly 20 pages in length, this commitment letter is by far the most comprehensive produced to date and, once implemented, will codify heretofore unseen budgetary controls and transparency and accountability requirements. The additional manpower discussed in Recommendation 3 is a critical part of the increased transparency and accountability sought by the U.S. taxpayer and International donor community. CSTC-A will supply SIGAR with copies of the FY1393 commitment letters once signed.

CM ratings have been used in conjunction with the Quarterly Strategic Assessment Report (QSAR), the Transition Provincial Outlook Report (TPOR), the National Defense Authorization Act (NDAA) Section 1230 Report and other USA and NATO reports to provide an assessment of capacity and capability within the individual ministries. Ministerial Development Plans (MDP) and CM ratings were designed as evolving systems that would be periodically evaluated and modified to ensure they remained relevant to the evolving organizational and ministerial development campaign. The MDPs and resultant CM ratings assess the ability of a directorate to execute their stated roles and responsibilities under varying degrees of coalition supervision. Restructures and organizational realignments of functions occur that often require revision of both the Ministerial Development Plans as well as the ratings. The overall rating could be effected by multiple events, including; transition of Afghan personnel, transition of advisors, and/or



### CSTC-A MAG INSPECTION REPORT RESPONSE

"Direct Assistance: DOD Has Not Conducted Comprehensive Risk Assessments of MoI and MoD Capability to Manage and Account For Over \$4 Billion In Direct Assistance Funding"  
(SIGAR Special Report 14-X-SP)

identification of new requirements levied on a directorate. While the ultimate goal of the MDP is for an office to operate independent of coalition support, use of a capability scale allows the coalition to alter the level of advisor support based on competence. This allows the coalition to mitigate risk by reallocating personnel resources to areas with lower capability milestone ratings.

As CSTC-A approaches the transition from ISAF to RESOLUTE SUPPORT, the ministerial advising model is evolving from an office-based to a functionally oriented advising model where we will measure the effectiveness of the systems within the ministry vice the office. This will include the elimination of certain CM ratings aligned with specific offices as we roll the office into an overall effect to be monitored. The first step of this was the issue of NTM-A/CSTC-A FRAGO 13-300 – Interim CSTC-A/MAG Commander's Direction and Guidance on 23 July 13. Further action includes a complete MDP review by both MoD and MoI MAGs, and imminent release of the CSTC-A/MAG BASEORD covering Phases IIIB and IIIC of the ISAF mission (concluding 31 Dec 14).

CSTC-A's primary means of reporting overall functional capacity within the ministries is the Quarterly Strategic Assessment Report (QSAR). This assessment is informed in part by CM ratings; however is focused on collective functionality within the ministries within the four strategic enterprise functions: Sustainment (logistics, procurement & resource management), IG/TAO, Strategy & Policy, and Human Resources. Reviews of the assessments provided by the CM ratings have revealed that the information provided no longer support the commander's assessment requirements or advising methods as we transition. Current planning has identified 13 critical ANSF development tasks which will further focus advising efforts. Two of these tasks are directly related to financial management:

1. Assist the ASI to develop functioning systems that manage and allocate resources (including human capital) in an environment of improved transparency, accountability, and integrity to sustain the ANSF (OPR: CSTC-A/MAG; OSR: CJIATF-A)
2. Implement financial and resource management control measures to improve effectiveness of ASI/ANSF counter-corruption efforts, improve ASI accountability of resources, and sustain coalition and IC support (OPR: CSTC-A/MAG; OSR: CJIATF-A)

ISAF subordinate commands will develop sub-tasks that support the primary objective, including appropriate Measures of Effectiveness (MoE) and Measures of Performance (MoP) to evaluate progress within the Afghan Ministries. Coalition-led Training, Advising, and Assistance (TAA) activities will be tailored to support the Afghan Ministries to further develop and refine capability to achieve functional requirements defined by the objectives. The Director of the Resource Management Pillar, in conjunction with the CSTC-A CJ8, as a stakeholder in the improvement of financial capability and capacity within both MoD and MoI, will assist in development of the sub-task requirements and assist MoE and MoP definition.

On 26 July 2013, the Director of Resource Management, in conjunction with the key advisors from the Ministry of Defense and Ministry of Interior developed a set of measures of effectiveness and measures of performance that would help reflect capability and capacity development of key financial management functions such as budget development and budget execution. A beta test on these measures is currently underway.

CSTC-A remains committed to being a good steward of valuable resources. The Coalition's responsible management of taxpayers' dollars involves active measures, well beyond the use of CM ratings, to maintain oversight and accountability. CSTC-A welcomes the insight and recommendations of outside

### CSTC-A MAG INSPECTION REPORT RESPONSE

"Direct Assistance: DOD Has Not Conducted Comprehensive Risk Assessments of MOI and MOD  
Capability to Manage and Account For Over \$4 Billion In Direct Assistance Funding"  
(SIGAR Special Report 14-X-SP)

organizations to inform our assessments and refine our processes as we work with our Afghan partners to ensure appropriate allocation of resources.

#### 2. Recommendation 3:

The Commander, Combined Security Transition Command-Afghanistan, reassess CSTC-A CJ8 staffing levels to ensure the branch has the capacity to properly fulfill its oversight responsibilities for ANSF direct assistance funding.

##### *a. CSTC-A response:*

CSTC-A concurs with comment. Prior to the SIGAR fieldwork visit in May/June 2013, CJ8 had already identified manpower and expertise shortfalls, especially in audit capabilities and capacity. CSTC-A shared these concerns with the DoD IG during their visit earlier in May 2013. The senior member of the DoD IG team, Mr. Kenneth Moorefield, agreed that we needed to leverage the large civilian auditor pool across the DoD to create audit capacity within CSTC-A CJ8. We appreciate that the SIGAR recognizes the capability and capacity gap as well.

The downward trend for CSTC-A CJ8 manning began earlier in 2013, as a result of boots-on-ground (BOG) decisions made more than a year ago. Over the course of 2013, all four Services have declined or delayed backfilling vacant billets, in anticipation of the larger drawdown in 2014, and Coalition partners have reduced force levels, leaving numerous capacity gaps and workload challenges in the CJ8. In the interim, CSTC-A has identified and re-missioned inbound Finance/Resource Management personnel slated for positions being eliminated elsewhere in Afghanistan, often with the help of CENTCOM J8. These local actions have helped alleviate some of the immediate manning shortfall concerns magnified by external pressures to decrease BOG theater-wide.

CSTC-A leadership has taken numerous steps to address the manning and expertise shortfalls within the CJ8. The CENTCOM J8 has been fully supportive of the CSTC-A CJ8 manpower/manning shortfalls and has been an active participant in overcoming the manpower struggles for the future. To date, CSTC-A has formally pursued additional manpower via: two requests for assistance (RFA), a request for forces (RFF), and a joint manning document (JMD) out-of-cycle (OOC) change request to realign 18 vacant billets from elsewhere in CSTC-A.

As of 18 October 2013, it appears that the Joint Staff has approved CSTC-A's request for civilian auditors. Meanwhile, CSTC-A's JMD OOC change request appears headed for approval, and we are hopeful these updates/changes will appear in EJMAPs before the end of October. This JMD out of cycle change request is designed to fix 15 billet descriptions to reflect the proper service, experience and duty description remarks to obtain the right skill sets. CSTC-A's RFF currently awaits Joint Staff sourcing. Once the JMD OOC change request has been completely processed, and the RFF has been sourced, the CJ8 will have the capacity and capabilities necessary to perform its enduring Resolute Support Mission – that is to say, justify, account for, and maintain fiscal control of approximately \$65 billion in ASFF across FY 08 - FY 15.

APPROVED BY:

PREPARED BY:

Carol C. Yannarella  
Col, RM director (ED Sustainment)  
Director of Resource Management,  
DSN [REDACTED]

## APPENDIX IV: ACKNOWLEDGMENTS

---

Major SIGAR contributors to this report were Jeremy Brown, Monica Brym, and Nicolaus R. Heun. Technical support was provided by Kim Corthell and Larry Dare.



## **SIGAR's Mission**

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

- improve effectiveness of the overall reconstruction strategy and its component programs;
- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

## **Obtaining Copies of SIGAR Reports and Testimonies**

To obtain copies of SIGAR documents at no cost, go to SIGAR's Web site ([www.sigar.mil](http://www.sigar.mil)). SIGAR posts all publically released reports, testimonies, and correspondence on its Web site.

## **To Report Fraud, Waste, and Abuse in Afghanistan Reconstruction Programs**

To help prevent fraud, waste, and abuse by reporting allegations of fraud, waste, abuse, mismanagement, and reprisal, contact SIGAR's hotline:

- Web: [www.sigar.mil/fraud](http://www.sigar.mil/fraud)
- Email: [sigar.pentagon.inv.mbx.hotline@mail.mil](mailto:sigar.pentagon.inv.mbx.hotline@mail.mil)
- Phone Afghanistan: +93 (0) 700-10-7300
- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

## **Public Affairs**

Public Affairs Officer

- Phone: 703-545-5974
- Email: [sigar.pentagon.ccr.mbx.public-affairs@mail.mil](mailto:sigar.pentagon.ccr.mbx.public-affairs@mail.mil)
- Mail: SIGAR Public Affairs  
2530 Crystal Drive  
Arlington, VA 22202